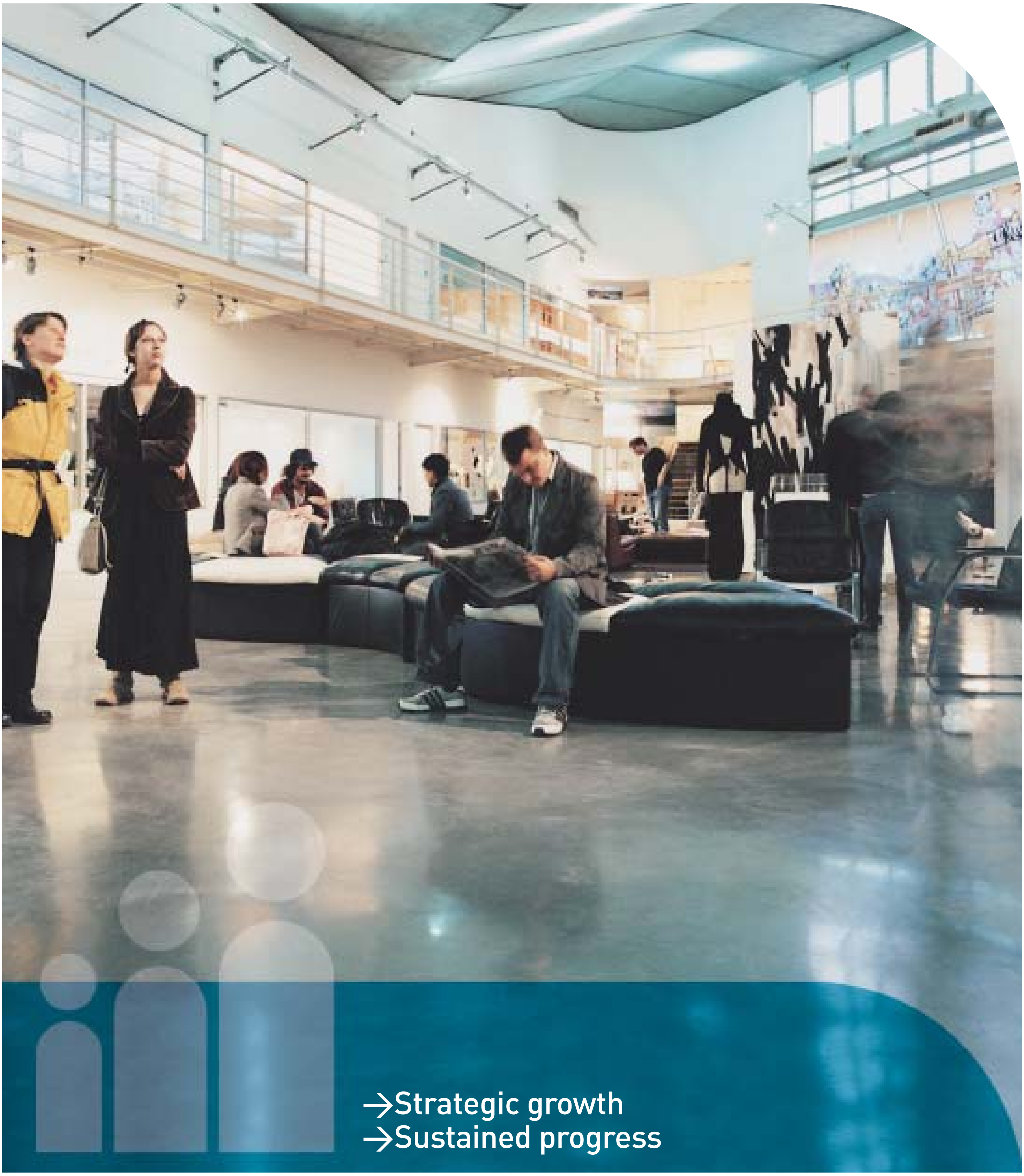

Workspace Group

Workspace Group PLC
Interim Report
For the six months ended
30 September 2005

Highlights

Interim Results for the six months ended 30 September 2005

- Net Asset Value (NAV) per share at 30 September 2005 £1.94, up 9.6% over the six months and up 23% over 12 months (31 March 2005: £1.77; 30 September 2004: £1.58).
- NAV per share (under former UK GAAP) at 30 September 2005 £2.49 up 11.1% over the six months and up 25% over 12 months (31 March 2005: £2.24; 30 September 2004: £1.99).
- Valuation surplus for half year £40.2m (2004: £27.4m).
- Pre-tax profits £45.8m (2004: £34.7m).
- Pre-tax profits on trading operations* £6.8m (2004: £6.9m).
- Basic earnings per share 19.6p (2004: 15.2p).
- Earnings per share on trading operations* 2.9p (2004: 3.0p).
- Revenue (turnover) £29.2m for the half year up 8.6% on last year.
- Acquisitions £95.7m since 31 March 2005, with initial annual income of £6.1m.
- Dividend 1.25 pence (2004: 1.13 pence).

*Trading operations exclude Other Items defined following the Income Statement (page 10).

Operating and Financial Review

Chairman's Statement

Workspace's strategy remains to build long term sustainable growth in asset values and earnings from the provision of accommodation for small and medium sized businesses (SMEs), primarily in London. With our portfolio of over 100 estates with 5.9 million sq. ft and some 4,000 customers, we are the leading supplier of space for SMEs in this large and growing market-place. Our customers are at the heart of the London economy: as they and the London economy grow, so will the opportunities for Workspace.

These results for the first half of 2005/06 again show good growth with Net Asset Value (NAV) per share up 9.6% over the half year, and 23% over the last 12 months. Measured under the new International Financial Reporting Standards (IFRS), NAV per share has risen to £1.94 (31 March 2005: £1.77) (under former UK GAAP £2.49 at 30 September 2005 and £2.24 at 31 March 2005). A more detailed commentary of the impacts of IFRS is given in the Financial Review. Pre-tax profits during the period of £45.8m are up 32% on last year (30 September 2004: £34.7m). Pre-tax profits on trading operations of £6.76m are slightly behind last year at £6.92m largely due to higher year on year interest charges in the first quarter. During the half year five acquisitions totalling £95.7m were completed. Notable amongst these was the acquisition of Kennington Park for £56.0m, the largest single acquisition in the Group's history. This property comprises 11 buildings on a prominent island site. Although there is no immediate benefit to earnings due to the initial yield on acquisition, it offers considerable scope for improvement of returns as the Group brings its marketing and management formulae to bear.

Over the last 5 years we have consistently increased annual dividends by 10% per year. It is anticipated that this year's dividend will again increase by 10% to 3.75 pence per share, and an interim dividend of 1.25 pence per share has been declared with these accounts.

Shareholders will have received my recent letter concerning the notification of a possible interest in the Company. Publication of this interim report, as a result, falls within the regulatory requirements applicable in such circumstances. Your Board does not wish this to obstruct the customary reporting of the Company's activities to stakeholders. As such, full details of the briefings provided to analysts have been made available (as is customary) in the Company Presentations section of Financial Reporting within the Investors Home segment of its website. Should shareholders have difficulties accessing this information or require a hard copy please contact the Company Secretary at the Group's head office.

Chief Executive's Statement

Good progress has been made both in our acquisition programme and in the value of the portfolio. This progress has not, however, been matched in like-for-like rentals and occupancy which have not improved comparably over the period, the gains in the first quarter being diluted by a largely neutral second quarter. Two large tenancy departures arose during this period. However, good progress has already been made in the re-letting of this space.

Net rental income increased by 8.3% to £21.48m for the half year (2004: £19.84m) with administration expenses (overheads) as a percentage of revenue (turnover) down marginally at 14.4% (2004: 14.5%). Earnings per share at 19.6p (2004: 15.2p) were up 29% on the first half last year. Trading earnings growth was impacted by increased interest charges and slower rental growth (as referred to above) with the result that earnings per share on trading operations were marginally down at 2.9p per share (2004: 3.0p).

During the period the Group has acquired £95.7m of properties showing a combined initial yield of 6.4% and a yield on current market rental levels of 7.75% (rising to 8.22% on the completion of the refurbishment works at Power Road). These properties have good potential for future growth. There also continues to be good capacity for rental growth in our existing stock. Indeed, over the next six months our three key refurbishment schemes (at Clerkenwell, Enterprise and Southbank) will complete and lettings commence, whilst our initiatives for the change of use of certain sites continue. In this active investment market we have considered also the scope for disposals. With an increasing focus on the London market we have decided to offer for sale a portfolio of smaller properties (being 5% by value of the Group's total portfolio) located outside the M25. Our portfolio, as detailed in note 9 of the accounts, is now valued at £867m and with our planned investment programmes we are well on the way to meeting the target we set ourselves in September 2003 of doubling our assets and achieving a £1bn portfolio by September 2008 through the organic growth of the business.

Operating and Financial Review
continued

Portfolio
The table below shows the acquisitions and disposals which have been made in the half year.

Name of Property	Description	Acquisition/ Sale Price	Initial/Exit Income £000 pa	Market rent at 30 September 2005 £000 pa
Acquisitions:				
111 Power Road, Chiswick, London, W4	Factory complex of 98,000 sq.ft.	£7.50m	151.8	256.9*
Marshgate Business Centre, London, E15	Multi-let industrial estate of 93,400 sq.ft.	£5.59m	347.3	471.0
Evelyn Court, Deptford, SE8 5AD	16,000 sq.ft., 18 unit offices	£2.64m	210.0	209.7
Uplands Business Park, Walthamstow, E17	287,500 sq.ft. industrial estate with 45 units	£24.0m	1,711.0	1,887.3
Kennington Park, Kennington, SW9	333,100 sq.ft. business park arranged over 11 buildings with 71 lettable units.	£56.0m	3,705.4	4,592.1
		£95.73m	6,125.5	7,417.0
Yield			6.40%	7.75%
Disposals:				
Payne Road Studios and 5 Payne Road, London, E3	Site sold with consent for mixed residential and commercial accommodation.	£2.10m	97.4	
Exit Yield			4.64%	

*On completion of the refurbishment works to this property the ERV will increase to £1.1m.

Of these five acquisitions, four (i.e. all but Power Road) have been followed for some considerable time, being held on our database of target acquisitions in London. This database now comprises nearly 3,000 properties, of which 10% have been identified as key targets where we believe we can add value. The Power Road acquisition was identified during a detailed search in the vicinity of another of our other recent acquisitions. We are constantly developing our target database.

Two of the recent acquisitions will be directly affected by the Olympics in 2012 (Marshgate and Uplands). Indeed, we believe many of our estates will benefit not just from the business relocations brought about by the Olympics decision, and improved rentals as infrastructure works proceed but also from the growth that the Olympics will introduce to London.

The most significant acquisition in the period was Kennington Park. In many respects this property mirrors our Leathermarket Centre. As with Bermondsey in the 1990's, we believe the Kennington area will improve over the medium term. This will be assisted by our proposed works to reinvigorate the site and create a centre for small businesses with ancillary facilities such as a café and reception. In due course the number of businesses on this estate will increase, become more diverse, and will be in high added value sectors. We see considerable long term potential in this acquisition.

Operating and Financial Review
continued

Following the acquisitions and disposals completed in the quarter, the portfolio statistics and progress through the year may be summarised as follows:

	30 September 2005	30 June 2005	31 March 2005
Number of estates	107	105	104
Total floor space at end of period (million sq. ft.)	5.92	5.33	5.16
of which:			
Like-for-like portfolio (million sq. ft.)	4.94	4.94	
Acquisitions (million sq. ft.)	0.80	0.21	
Developments (million sq. ft.)	0.18	0.18	
Lettable units (number)	4,885	4,748	4,717
Annual rent roll of occupied units (£m)	48.17	43.17	42.28
Average rent (£/sq. ft.)	9.47	9.35	9.29
Average rent of like-for-like portfolio (£/sq. ft.)	9.26	9.26	9.11
Occupancy overall	85.92%	86.65%	88.26%
Occupancy of like-for-like portfolio	88.74%	89.40%	90.27%

Comparisons of overall occupancy and rent roll are distorted by acquisitions, disposals and transfers. The "like-for-like portfolio" is defined as those properties that have been held throughout the year to date and which are not subject to refurbishment/redevelopment programmes.

Like-for-like occupancy has declined from 90.3% to 88.7% over the first half. During the period there have been major vacations at Surrey House and Tower Bridge Business Complex. Lettings are in progress on both these estates which we expect to be completed in the current quarter. Overall at 86% we are running at occupancy levels only slightly short of effective full occupancy. Over the next six months we will complete refurbishment works at Southbank, Enterprise and Clerkenwell, following which lettings here will improve total occupancy.

Average rents have remained static in the current quarter but have risen by 1.6% (from £9.11 to £9.26) in the half year.

Progress on the Group's programme to add value to its properties continues. We are expecting a decision on our major mixed-use scheme at Thurston Road in Lewisham by the financial year end, are appealing the planning refusal on our scheme for Aberdeen Studios in Islington, and (following receipt of planning consent) hope to conclude the disposal of Wharf Road shortly.

Valuation

The interim valuation yielded a net surplus of £40.2m for the first 6 months an uplift of 4.9%, taking total investment property to £865m. This increase in the valuation has been driven mainly by yield movements, though improvements in rent levels particularly during the first quarter of the period have contributed approximately 15%. The Group has identified that in the longer term as much as 45% of the existing portfolio has potential for "added value" activities such as refurbishment, extensions and re-development. Much of this is not immediately realisable but will mature as pressure on land in London increases. Little of the value arising from this is recognised in the Group's portfolio valuation, which continues to be based on existing use value except where consent for an improved use has been obtained. Further, the valuation does not recognise the accruing value of an increasingly focused portfolio built on localised clusters of properties.

Operating and Financial Review
continued

Financial Review
This is the first half yearly report to be prepared using International Financial Reporting Standards (IFRS).

Under IFRS, the focus of the accounts has moved from the P & L Account (now called the Income Statement) to the Balance Sheet with this being prepared by reference to "fair values" of certain assets and liabilities rather than their historic costs as formerly. This fair valuing of assets will cause greater volatility as the valuation differences pass through the Income Statement. We have decided therefore to preserve our practice of analysing our Income Statement between "Trading Operations" and non trading "Other Items". The valuation adjustments have been classified under other items alongside profits/losses on disposal of investment properties and other exceptional items. This approach has the advantage of presenting a trading performance which accords broadly with that presented previously under former UK GAAP in the "Trading Operations" column. Consequently, a more consistent pattern should be preserved in the Trading Operations column with the higher volatility items focused in Other Items.

This approach also serves to spotlight the impact that these adjustments have, with trading earnings per share of 2.9p increasing by 16.7p (575%) to 19.6p as a result of these adjustments. This Other Items total has arisen principally due to the valuation surplus of £40.21m in the half year (2004: £27.38m), less the difference arising from the revaluation of derivative financial instruments (the interest rate collars used to shelter the Group from the impact of excessive changes in interest rates) which in the comparative period contributed £1.07m but for the current period showed a cost of £0.68m.

We propose reporting on this basis for the foreseeable future, whilst understanding of IFRS reporting develops. A reconciliation of the comparative results under IFRS to those under former UK GAAP may be found in note 24 to this statement.

Profits before tax, at £45.83m are up 32.1% (2004: £34.69m). However, at a trading operations level, there was a reduction from £6.92m in 2004/05 to £6.76m in the current year. Interest charges for the half year were up £1.67m mainly due to increased borrowing levels, but due in part also to increased rates during the first quarter (year on year).

The other significant impact of the implementation of IFRS is that on reported net worth and net asset value per share. Here the key influence is the full recognition of deferred tax liabilities on valuation surpluses. This deferred tax liability will only accrue if the related assets are sold. The deferred tax liability increased from £7.35m to £86.08m on restatement of the 31 March 2005 Balance Sheet (an adjustment of 48 pence per share), increasing to £98.22m at 30 September 2005 once the valuation surplus and other items in the quarter were accounted for (amounting to 7 pence per share). The impact of this adjustment has been exacerbated by the requirement under IFRS that indexation allowances, ordinarily allowable under UK tax law, be ignored in computing the deferred tax liability. As a result, the reported deferred tax liability overstates the tax liability estimated on the basis of gains measured at the reporting date by £16.55m (10 pence per share).

The following table summarises the impacts of the changes to Net Asset Value per share:

Net Assets per share	**31 March 2005**	**Movements**	**30 September 2005**
Under former UK GAAP	£2.24	£0.25	£2.49
Adjustments	£(0.47)	£(0.08)	£(0.55)
Under IFRS	£1.77	£0.17	£1.94

During the first half of the year acquisitions totalling £95.7m were made with costs and other additions of £14.6m. These acquisitions have been financed using the Group's existing facilities with NatWest and Bradford & Bingley. The latter of these has been increased by £70m to £270m, renewing the term to a fresh 5 year period maturing in July 2010. Negotiations are in hand for a further facility extension with Natwest to support acquisitions. In addition, following a review of the Group's portfolio a number of properties have been offered for sale which, if completed, will lead to a receipt from disposal.

Operating and Financial Review
continued

The changes in the balance sheet under IFRS referred to earlier have a consequent impact on gearing. However, your Board, in common with the Group's bankers, considers that gearing measurement should continue to be monitored for the present under the former UK GAAP principles. As a result, both IFRS and former UK GAAP measures are incorporated in the following table of key financial statistics and indicators:

		6 months to 30 September 2005	3 months to 30 June 2005	Year to 31 March 2005	6 months to 30 September 2004
Net rental income: revenue		73%	72%	74%	74%
Trading operating profit: revenue		59%	58%	60%	59%
Trading PBT: revenue		23%	22%	26%	26%
EPS per share (pence)		19.6	8.5	36.1	15.2
NAV per share (£)	– IFRS	1.94	1.85	1.77	1.58
	– UK GAAP	2.49	2.35	2.24	1.99
Trading interest cover		1.65	1.63	1.77	1.77
Gearing	– IFRS	137%	112%	112%	120%
	– UK GAAP	105%	87%	88%	94%
Available facilities (£m)		*13.6	38.0	49.2	68.3

*Arrangements are in hand to increase facilities by a further £25.0m.

Prospects

The long term prospects for London and the SME community in the capital remain good. Short term confidence levels reported of late remain positive too. However, they are lower than last year, which may flatten general rental growth for a short period. Even so, the Group should still see growth overall with the contributions from the lettings of its refurbishment schemes at Clerkenwell, Southbank and Enterprise House next year. With the Olympic Games and other economic drivers on the London economy, the prospects are for a growing and ever-more vibrant SME community. This should underpin the Group's prospects going forward.

Independent review report to Workspace Group PLC

Introduction
We have been instructed by the Company to review the financial information for the six months ended 30 September 2005 which comprises a consolidated income statement, a consolidated statement of recognised income and expense, a consolidated balance sheet as at 30 September 2005, a consolidated cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 23, the next annual financial statements of the Group will be prepared in accordance with accounting standards adopted for use in the European Union. This interim report has been prepared in accordance with the basis set out in note 23.

The accounting policies are consistent with those that the directors intend to use in the next annual financial statements. As explained in note 23, there is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adopted for use in the European Union. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 March 2006 are not known with certainty at the time of preparing the interim financial information.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2005.

PricewaterhouseCoopers LLP
Chartered Accountants
London

18 November 2005

Notes:
(a) The maintenance and integrity of the Workspace Group PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Consolidated Income Statement (unaudited)

for the 6 months ended 30 September 2005

Year ended 31 March 2005 (restated) £000		Notes	6 months ended 30 September 2005 Trading Operations £000	Other Items* £000	Total £000	6 months ended 30 September 2004 (restated) £000
55,039	Revenue	1	**29,229**	**–**	**29,229**	26,911
(14,071)	Direct costs	1	**(7,777)**	**26**	**(7,751)**	(7,074)
40,968	**Net rental income**		**21,452**	**26**	**21,478**	19,837
(7,643)	Administrative expenses		**(4,248)**	**39**	**(4,209)**	(3,910)
67,923	Gain from change in fair value of investment property		**–**	**40,206**	**40,206**	27,378
(75)	Profit/(loss) on disposal of investment properties	2	**–**	**27**	**27**	(384)
101,173	**Operating profit**		**17,204**	**40,298**	**57,502**	42,921
73	Finance income – interest receivable		**21**	**–**	**21**	45
(19,523)	Finance costs – interest payable	3	**(10,463)**	**(557)**	**(11,020)**	(9,350)
1,097	Change in fair value of derivative financial instruments		**–**	**(678)**	**(678)**	1,073
82,820	**Profit before tax**		**6,762**	**39,063**	**45,825**	34,689
(24,342)	Taxation	4	**(2,048)**	**(11,706)**	**(13,754)**	(10,129)
58,478	**Profit for the period after tax and attributable to equity shareholders**		**4,714**	**27,357**	**32,071**	24,560
36.1p	Basic earnings per share	6	**2.9p**	**16.7p**	**19.6p**	15.2p
34.8p	Diluted earnings per share	6	**2.8p**	**16.0p**	**18.8p**	14.6p

* **Other Items** above include items, such as profits and losses (together with their related taxation) on sales of investment properties, of a non trading nature together with valuation adjustments arising from the fair valuing of financial assets and liabilities. The adjustment to direct costs arises from the treatment of head lease payments as interest, with the adjustment to administrative expenses from the estimation under IFRS2 of the services cost arising from the grant of share options and other non-cash remuneration to staff.

Consolidated Statement of Recognised Income and Expense (unaudited)

for the 6 months ended 30 September 2005

Year ended 31 March 2005 (restated) £000		6 months ended 30 September 2005 £000	6 months ended 30 September 2004 (restated) £000
58,478	Profit for the financial period	**32,071**	24,560
(15)	Convertible loan stock conversion	**–**	(17)
231	Value of employee services	**185**	102
58,694	Total recognised income and expense for the period	**32,256**	24,645

Consolidated Balance Sheet (unaudited)

as at 30 September 2005

31 March 2005 (restated) £000		Notes	30 September 2005 £000	30 September 2004 (restated) £000
	Assets			
	Non-current assets			
716,537	Investment properties	8	**865,100**	653,204
143	Intangible assets		**212**	164
3,523	Property, plant and equipment	10	**3,520**	3,204
720,203			**868,832**	656,572
	Current assets			
5,159	Trade and other receivables	11	**8,163**	7,897
187	Financial assets – derivative financial instruments		**85**	124
1,251	Financial assets – tenant deposits	12	**1,773**	1,206
3	Cash and cash equivalents		**4**	2,821
6,600			**10,025**	12,048
	Liabilities			
	Current liabilities			
(817)	Financial liabilities – borrowings	14	**(1,918)**	(3)
(24,816)	Trade and other payables	13	**(28,845)**	(26,321)
(2,507)	Current tax liabilities		**(413)**	(5,545)
(28,140)			**(31,176)**	(31,869)
(21,540)	Net current liabilities		**(21,151)**	(19,821)
	Non current liabilities			
(322,402)	Financial liabilities – borrowings	14	**(429,987)**	(306,969)
(1,729)	Financial liabilities – derivative financial instruments		**(2,305)**	(1,690)
(86,075)	Deferred tax liabilities	16	**(98,224)**	(72,422)
(410,206)			**(530,516)**	(381,081)
288,457	**Net assets**		**317,165**	255,670
	Shareholders' equity			
16,884	Ordinary shares	17	**16,891**	1,688
28,388	Share premium	19	**28,442**	43,586
(5,519)	Investment in own shares	19/20	**(5,409)**	(6,096)
461	Other reserves	18	**646**	332
248,243	Retained earnings	19	**276,595**	216,160
288,457	**Total shareholders' equity**	19	**317,165**	255,670
£1.77	Net asset value per share (basic)	7	**£1.94**	£1.58
£2.22	Adjusted net asset value per share (diluted)	7	**£2.44**	£1.95

Consolidated Cash Flow Statement (unaudited)

for the 6 months ended 30 September 2005

Year ended 31 March 2005 (restated) £000		Notes	6 months ended 30 September 2005 £000	6 months ended 30 September 2004 (restated) £000
	Cash flows from operating activities			
33,870	Cash generated from operations	15	**17,185**	16,217
73	Interest received		**21**	45
(19,714)	Interest paid		**(10,531)**	(9,365)
(3,179)	Tax paid		**(1,668)**	(1,534)
11,050	Net cash from operating activities		**5,007**	5,363
	Cash flows from investing activities			
(44,944)	Purchase of investment property		**(99,843)**	(28,886)
(9,543)	Capital expenditure on investment property		**(10,366)**	(3,699)
35,362	Proceeds from sales of investment property		**2,353**	34,219
(2,745)	Taxation on disposal of investment property		**(2,032)**	(795)
(44)	Purchase of intangible assets		**(37)**	(18)
(823)	Purchase of property, plant and equipment		**(309)**	(228)
(22,737)	Net cash (used in)/from investing activities		**(110,234)**	593
	Cash flows from financing activities			
287	Net proceeds from issue of ordinary share capital		**61**	289
16,300	Net proceeds from issue of new bank loan		**107,700**	1,000
687	Net distribution of own shares		**110**	110
(51)	Finance lease principal payments		**(26)**	(26)
(5,186)	Dividend paid to shareholders	5	**(3,719)**	(3,349)
12,037	Net cash from/(used in) financing activities		**104,126**	(1,976)
350	**Net (decrease)/increase in cash and cash equivalents**		**(1,101)**	3,980
(1,159)	Cash and cash equivalents at start of period		**(809)**	(1,159)
(809)	**Cash and cash equivalents at end of period**	15	**(1,910)**	2,821

Notes to the Half Year Interim Report

1. Analysis of net rental income

Year ended 31 March 2005 (restated) Revenue £000	Costs £000	Net Rental Income £000		6 months ended 30 September 2005 Revenue £000	Costs £000	Net Rental Income £000	6 months ended 30 September 2004 (restated) Revenue £000	Costs £000	Net Rental Income £000
43,270	(278)	42,992	Rental income	**23,110**	**(101)**	**23,009**	21,417	(189)	21,228
9,865	(13,482)	(3,617)	Service charges and other recoveries	**5,462**	**(7,480)**	**(2,018)**	4,838	(6,871)	(2,033)
1,904	(311)	1,593	Services, fees, commissions and sundry income	**657**	**(170)**	**487**	656	(14)	642
55,039	(14,071)	40,968		**29,229**	**(7,751)**	**21,478**	26,911	(7,074)	19,837

The Group operates a single business segment providing business accommodation for rent in London and the South East of England, which is continuing.

2. Profit/(loss) on disposal of investment properties

Year ended 31 March 2005 (restated) £000		6 months ended 30 September 2005 £000	6 months ended 30 September 2004 (restated) £000
34,721	Proceeds from sale of investment properties	**2,150**	34,421
(34,796)	Book value at time of sale plus sale costs	**(2,123)**	(34,805)
(75)	Profit/(loss) on sale	**27**	(384)
(4,007)	Current tax	**(235)**	(3,800)
4,485	Deferred tax released on sale	**278**	4,286
478	Net tax	**43**	486
403	Net profit on disposal after tax	**70**	102

On 27 May 2005 the Group disposed of Payne Road Studios and 5 Payne Road, London, E3 for £2.1m.

3. Finance costs – interest payable

Year ended 31 March 2005 (restated) £000		6 months ended 30 September 2005 £000	6 months ended 30 September 2004 (restated) £000
	Interest expense:		
(16,806)	Interest payable on bank borrowings	**(9,713)**	(8,091)
(391)	Amortisation of issue costs of bank loans	**(214)**	(186)
(51)	Interest payable on finance leases	**(26)**	(26)
(1,391)	Interest payable on 11.125% First Mortgage Debenture Stock 2007	**(695)**	(695)
(814)	Interest payable on 11.625% First Mortgage Debenture Stock 2007	**(407)**	(407)
(284)	Interest payable on 11% Convertible Loan Stock 2011	**(142)**	(142)
214	Interest capitalised on investment property re-developments	**177**	197
(19,523)		**(11,020)**	(9,350)

Notes to the Half Year Interim Report
continued

4. Taxation

Year ended 31 March 2005 (restated) £000	Analysis of charge in period	6 months ended 30 September 2005 £000	6 months ended 30 September 2004 (restated) £000
6,190	Current tax	**1,605**	5,632
18,152	Deferred tax (see note 16)	**12,149**	4,497
24,342	Total taxation	**13,754**	10,129

The tax on the Group's profit for the period differs from the standard applicable corporation tax rate in the UK (30%). The differences are explained below:

82,820	Profit before taxation	**45,825**	34,689
24,846	Tax at standard rate of corporation tax in the UK of 30% (2004/5: 30%)	**13,748**	10,407
14	Expenses not deductible for tax purposes	**19**	25
64	Other differences	**40**	81
(408)	Capital gains adjustments on property disposals	**(53)**	(384)
(5)	Reductions due to application of small companies rate	**–**	–
(169)	Adjustment in respect of previous periods	**–**	–
24,342	Tax expense	**13,754**	10,129

5. Dividends paid

Year ended 31 March 2005 (restated) £000		6 months ended 30 September 2005 £000	6 months ended 30 September 2004 (restated) £000
–	Final dividend for year ended 31 March 2005 of 2.28p per ordinary share paid 2 August 2005	**3,719**	–
3,349	Final dividend for year ended 31 March 2004 of 2.07p* per ordinary share paid 2 August 2004	**–**	3,349
1,837	Interim dividend for year ended 31 March 2005 of 1.13p* per ordinary share paid 1 February 2005	**–**	–
5,186	Dividends paid out of retained earnings (see note 19)	**3,719**	3,349

*Figures adjusted to reflect bonus share issue made in March 2005.

Notes to the Half Year Interim Report
continued

6. Earnings per share
a) Earnings used in calculating earnings per share

Year ended 31 March 2005 (restated) £000		6 months ended 30 September 2005 £000	6 months ended 30 September 2004 (restated) £000
58,478	Earnings for basic earnings per share	**32,071**	24,560
191	Interest saving net of taxation on 11% Convertible Loan Stock	**101**	84
58,669	Diluted earnings	**32,172**	24,644
(48,229)	Less non trading other items	**(27,357)**	(20,116)
10,440	Trading diluted earnings	**4,815**	4,528

b) Weighted average number of shares used for calculating earnings per share

Year ended 31 March 2005 (restated) Number		6 months ended 30 September 2005 Number	6 months ended 30 September 2004 (restated) Number
161,931,920	Weighted average number of shares (excluding shares held in the ESOT)	**163,375,024**	16,128,828
–	Increase due to capitalisation (March 2005)	**–**	145,159,452
161,931,920	Used for calculating basic earnings per share (excluding shares held in the ESOT)	**163,375,024**	161,288,280
1,682,780	Dilution due to Share Option Schemes	**2,622,343**	222,762
5,000,000	Dilution due to Convertible Loan Stock	**5,000,000**	500,000
–	Increase due to capitalisation (March 2005)	**–**	6,504,858
168,614,700	Used for calculating diluted earnings per share	**170,997,367**	168,515,900

7. Net assets per share
a) Net assets used in calculating net assets per share

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
288,457	Net assets at end of period	**317,165**	255,670
2,484	Dilution due to Convertible Loan Stock	**2,488**	2,479
290,941	Diluted net assets	**319,653**	258,149
6,541	Deferred tax on accelerated tax depreciation	**7,031**	4,935
80,029	Deferred tax on fair value change of investment properties	**91,866**	68,058
(463)	Deferred tax on derivative financial instruments	**(667)**	(469)
377,048	Adjusted diluted net assets	**417,883**	330,673

Notes to the Half Year Interim Report
continued

7. Net assets per share continued

b) Number of shares used for calculating net assets per share

31 March 2005 (restated) Number		30 September 2005 Number	30 September 2004 (restated) Number
168,839,660	Shares in issue at end of period	**168,909,640**	16,883,211
(5,620,370)	Less ESOT shares	**(5,340,370)**	(667,066)
–	Increase due to capitalisation (March 2005)	**–**	145,945,305
163,219,290	Number of shares for calculating basic net assets per share	**163,569,270**	162,161,450
1,682,780	Dilution due to Share Option Schemes	**2,622,343**	222,762
5,000,000	Dilution due to Convertible Loan Stock	**5,000,000**	500,000
–	Increase due to capitalisation (March 2005)	**–**	6,504,858
169,902,070	Number of shares for calculating diluted net assets per share	**171,191,613**	169,389,070

8. Investment properties

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
626,817	Balance at beginning of period	**716,537**	626,817
55,973	Additions during the period	**110,282**	33,200
214	Capitalised interest on re-developments	**177**	197
(34,385)	Disposals during the period	**(2,100)**	(34,385)
67,923	Gain from fair value adjustments on investment property	**40,206**	27,378
(5)	Amortisation of finance leases	**(2)**	(3)
716,537	Balance at end of period	**865,100**	653,204

Capitalised interest is included as an addition in the period, the rate of capitalisation is 5.86% (31 March 2005: 5.79%; 30 September 2004: 5.68%).

9. Valuation

The Group's investment properties were revalued at 30 September 2005 by CB Richard Ellis, Chartered Surveyors, a firm of independent qualified valuers. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction.

Included in the CB Richard Ellis valuations is an amount in respect of the Company's short leasehold interest (expiring 11 February 2011) in the Alpha Business Centre, Walthamstow. For accounts purposes, as the unexpired term of the leasehold interest in Alpha Business Centre is less than 20 years, the valuation of the property has been retained at a nominal £1. The adjustment from the valuation report total to the accounts total may be reconciled as follows:

Notes to the Half Year Interim Report
continued

9. Valuation continued

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
718,425	Total per CB Richard Ellis valuation report	**867,060**	655,050
(350)	Alpha Business Centre	**(385)**	(400)
(2,290)	Owner occupied property	**(2,325)**	(2,200)
752	Head leases treated as finance leases under IAS17	**750**	754
716,537	Total per accounts	**865,100**	653,204

10. Property, plant and equipment

	Owner occupied land £000	Owner occupied buildings £000	Motor Vehicles £000	Equipment and Fixtures £000	Total £000
Cost					
Balance at 1 April 2004 (restated)	500	1,525	25	4,165	6,215
Additions	–	5	–	223	228
Disposals	–	–	–	(939)	(939)
Balance at 30 September 2004 (restated)	500	1,530	25	3,449	5,504
Balance at 1 April 2004 (restated)	500	1,525	25	4,165	6,215
Additions	–	9	–	813	822
Disposals	–	–	–	(939)	(939)
Balance at 31 March 2005 (restated)	500	1,534	25	4,039	6,098
Balance at 1 April 2005	500	1,534	25	4,039	6,098
Additions	–	23	7	281	311
Disposals	–	–	–	–	–
Balance at 30 September 2005	**500**	**1,557**	**32**	**4,320**	**6,409**
Cumulative depreciation to 30 September 2004 (restated)	–	15	13	2,272	2,300
Net book value at 30 September 2004 (restated)	500	1,515	12	1,177	3,204
Cumulative depreciation to 31 March 2005 (restated)	–	30	15	2,530	2,575
Net book value at 31 March 2005 (restated)	500	1,504	10	1,509	3,523
Cumulative depreciation to 30 September 2005	**–**	**46**	**16**	**2,827**	**2,889**
Net book value at 30 September 2005	**500**	**1,511**	**16**	**1,493**	**3,520**

At 1 April 2004, the fair value of owner occupied land and buildings was adopted as the deemed cost of those assets. The fair value of owner occupied land and buildings was £2,025,000 and the carrying value at 1 April 2004 under UK GAAP was £2,036,401.

Notes to the Half Year Interim Report
continued

11. Trade and other receivables – current

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
3,484	Trade debtors	**4,125**	5,140
(385)	Less: provision for impairment of receivables	**(439)**	(447)
3,099	Trade debtors – net	**3,686**	4,693
–	Taxation and social security	**–**	4
2,060	Prepayments and accrued income	**4,477**	3,200
5,159		**8,163**	7,897

12. Tenant deposits
Financial assets – tenant deposits represent returnable cash security deposits received from tenants. These deposit deeds are ring-fenced under the terms of the individual lease contracts and cannot be used to fund the working capital of the Group. They are accordingly held separately from other cash balances and excluded from cash and cash equivalents with a corresponding liability recorded in trade and other payables (note 13).

13. Trade and other payables – current

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
2,219	Trade payables	**3,180**	3,146
1,111	Taxation and social security payable	**1,173**	1,574
1,251	Tenants' deposit deeds (see note 12)	**1,773**	1,206
4,869	Tenants' deposits	**5,153**	4,664
10,525	Accrued expenses	**11,090**	10,904
4,841	Deferred income-rent and service charges	**6,476**	4,827
24,816		**28,845**	26,321

Notes to the Half Year Interim Report
continued

14. Financial liabilities – borrowings
a) Balances

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
	Current		
812	Bank overdraft repayable on demand (secured)	**1,914**	–
5	Finance lease obligations	**4**	3
817		**1,918**	3
	Non-current		
2,484	11% Convertible Loan Stock 2011 (unsecured)	**2,488**	2,479
12,500	11.125% First Mortgage Debenture Stock 2007 (secured)	**12,500**	12,500
7,000	11.625% First Mortgage Debenture Stock 2007 (secured)	**7,000**	7,000
299,671	Other loans (secured)	**407,253**	284,239
747	Finance lease obligations	**746**	751
322,402		**429,987**	306,969
323,219		**431,905**	306,972

b) Maturity

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
	Secured		
812	Less than one year	**1,914**	–
–	Between one year and two years	**19,500**	–
219,500	Between two years and three years	**–**	219,500
–	Between three years and four years	**148,100**	–
100,800	Between four years and five years	**260,400**	85,500
321,112		**429,914**	305,000
(1,129)	Less cost of raising finance	**(1,247)**	(1,261)
319,983		**428,667**	303,739
	Unsecured		
2,484	In five years and more	**2,488**	2,479
	Finance Leases		
752	In five years and more	**750**	754
323,219		**431,905**	306,972

Notes to the Half Year Interim Report

continued

14. Financial Liabilities – borrowings continued

c) Financial instruments held at fair value

The following interest rate caps and collars are held:

	Amount £000	Interest Rate Cap	Interest Rate Floor	Expiry
Interest rate cap and collar (amortising amount)	102,370	8.00%	4.50%	July 2009
Interest rate cap and collar	75,000	6.95%	4.05%	July 2009
Interest rate cap and collar (increasing amount)	32,630	7.00%	2.99%	Oct 2010

Both these instruments are treated as financial instruments at fair value with changes in value dealt with in the income statement at each reporting date.

d) Fair values of financial instruments

31 March 2005 (restated)			30 September 2005		30 September 2004 (restated)	
Book Value £000	Fair Value £000		Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
		Financial instruments not at fair value through profit and loss				
812	812	Bank overdraft	**1,914**	**1,914**	–	–
2,484	2,914	11% Convertible Loan Stock 2011	**2,488**	**2,932**	2,479	2,930
12,500	13,474	11.125% First Mortgage Debenture Stock 2007	**12,500**	**13,369**	12,500	13,637
7,000	7,601	11.625% First Mortgage Debenture Stock 2007	**7,000**	**7,532**	7,000	7,703
299,671	299,671	Other loans	**407,253**	**407,253**	284,239	284,239
752	752	Finance lease obligations	**750**	**750**	754	754
323,219	325,224		**431,905**	**433,750**	306,972	309,263
		Financial instruments at fair value through profit and loss				
		Derivative financial instruments:				
1,729	1,729	Liabilities	**2,305**	**2,305**	1,690	1,690
(187)	(187)	Assets	**(85)**	**(85)**	(124)	(124)
1,542	1,542		**2,220**	**2,220**	1,566	1,566
324,761	326,766		**434,125**	**435,970**	308,538	310,829

The total loss recorded in the income statement was £678,000 (31 March 2005: £1,097,000 gain, 30 September 2004: £1,073,000 gain) for changes of fair value of derivative financial instruments.

The fair value of the interest rate collars has been determined by reference to market prices and discounted expected cash flows at prevailing interest rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates. The total fair value adjustment equates to 1.1p per share (31 March 2005: 1.2p, 30 September 2004: 1.4p). Comparatives have been restated for the bonus issue in March 2005.

Notes to the Half Year Interim Report
continued

15. Cash generated from operations
Reconciliation of profit for the period to cash generated from operations:

Year ended 31 March 2005 (restated) £000		6 months ended 30 September 2005 £000	6 months ended 30 September 2004 (restated) £000
58,478	Profit for the period	**32,071**	24,560
24,342	Tax	**13,754**	10,129
567	Depreciation	**314**	292
96	Amortisation of intangible assets	**43**	49
(15)	Share based payments	**(38)**	(17)
75	Profit/(loss) on disposals of investment property	**(27)**	384
(67,923)	Net gain from fair value adjustments on investment property	**(40,206)**	(27,378)
(1,097)	Fair value losses/(gains) on financial instruments	**678**	(1,073)
(73)	Interest income	**(21)**	(45)
19,523	Interest expense	**11,020**	9,350
	Changes in working capital:		
46	(Increase)/decrease in trade and other receivables	**(3,716)**	(1,813)
(149)	Increase/(decrease) in trade and other payables	**3,313**	1,779
33,870	Cash generated from operations	**17,185**	16,217

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
3	Cash and bank balances	**4**	2,821
(812)	Bank overdrafts (note 14)	**(1,914)**	–
(809)		**(1,910)**	2,821

Total tax paid in the period was £3,700,000 (31 March 2005: £5,924,000; 30 September 2004 £2,329,000).

Notes to the Half Year Interim Report
continued

16. Deferred tax liabilities

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
67,934	Balance at start of period	**86,075**	67,934
18,152	Deferred tax charge to Income Statement	**12,149**	4,497
(11)	Deferred tax credit to equity re: conversion of convertible loan stock	**–**	(9)
86,075	Balance at end of period	**98,224**	72,422

Deferred tax liability recognised in the balance sheet by each category of temporary timing difference is as follows:

31 March 2005 (restated) £000		30 September 2005 £000	30 September 2004 (restated) £000
80,029	Fair value gains on investment properties	**91,866**	68,058
6,541	Accelerated tax depreciation	**7,031**	4,935
(463)	Derivative financial instruments	**(667)**	(469)
(32)	Other	**(6)**	(102)
86,075		**98,224**	72,422

If the investment properties were sold for their revalued amount, there would be a potential liability to corporation tax of £74,922,000 (31 March 2005: £64,456,000, 30 September 2004: £54,130,000). Under IFRS no account is taken of indexation relief on capital gains resulting in the difference between expected corporation tax to be paid and the provision made for deferred tax.

17. Share capital

31 March 2005 Number		30 September 2005 Number	30 September 2004 Number
240,000,000	Authorised: Ordinary Shares of 10p each	**240,000,000**	21,500,000
168,839,660	Issued: Fully paid ordinary shares of 10p each	**168,909,640**	16,883,211
£		**£**	**£**
16,883,966	Issued: Fully paid ordinary shares of 10p each	**16,890,964**	1,688,321

Movements in share capital were as follows:

31 March 2005 Number		30 September 2005 Number	30 September 2004 Number
16,733,811	Number of shares at start of period	**168,839,660**	16,733,811
151,955,694	Bonus issue	**–**	–
50,000	Executive Share Options exercised	**–**	50,000
20,155	Employee Share Options exercised	**69,980**	19,400
80,000	Convertible Loan Stock converted	**–**	80,000
168,839,660	Number of shares at end of period	**168,909,640**	16,883,211

Notes to the Half Year Interim Report
continued

18. Other reserves

31 March 2005 (restated) Total £000		Equity element of convertible loan stock £000	Equity settled share based payments £000	30 September 2005 Total £000	30 September 2004 (restated) Total £000
254	At start of period	151	310	461	254
(35)	Convertible Loan Stock conversion	–	–	–	(33)
11	Deferred tax on conversion	–	–	–	9
231	Value of employee services	–	185	185	102
461	At end of period	**151**	**495**	**646**	332

19. Statement of changes in shareholders' equity

31 March 2005 (restated) Total £000		30 September 2005 Share Capital £000	Share Premium £000	Investment in Own Shares £000	Other Reserves £000	Retained Earnings £000	Total Equity £000	30 September 2004 (restated) Total £000
233,575	At start of period	16,884	28,388	(5,519)	461	248,243	288,457	233,575
697	Share issues	7	57	–	–	–	64	689
(10)	Share issue transaction costs	–	(3)	–	–	–	(3)	–
687	Distribution of own shares	–	–	110	–	–	110	110
(5,186)	Dividends paid	–	–	–	–	(3,719)	(3,719)	(3,349)
(26)	Convertible Loan Stock conversion	–	–	–	–	–	–	(26)
11	Deferred tax on conversion	–	–	–	–	–	–	9
231	Value of employee services	–	–	–	185	–	185	102
58,478	Profit for the period	–	–	–	–	32,071	32,071	24,560
288,457	At end of period	**16,891**	**28,442**	**(5,409)**	**646**	**276,595**	**317,165**	255,670

20. Investment in own shares

The Company has established an Employee Share Ownership Trust (ESOT) to purchase shares in the market for distribution at a later date in accordance with the terms of the 1993 and 2000 Executive Share Option Schemes. The shares are held by an independent trustee and the rights to dividend on the shares have been waived. During the period the Trust transferred 280,000 shares to employees on exercise of options. At 30 September 2005, the number of shares held by the Trust totalled 5,340,370 (31 March 2005: 5,620,370, 30 September 2004: 6,670,660) with a book value of £5,409,100 (31 March 2005: £5,518,880, 30 September 2004: £6,096,157). The shares have been included in shareholders' equity (see note 19). 5,329,010 shares held by the Trust are subject to option awards.

21. Capital commitments

At the period end the estimated amounts of commitments for future capital expenditure not provided for were:

31 March 2005 £000		30 September 2005 £000	30 September 2004 £000
8,859	Under contract	**7,258**	7,102
12,550	Authorised by directors but not contracted	**3,915**	10,178

Notes to the Half Year Interim Report
continued

22. Post balance sheet events
There have been no post balance sheet events since the period end.

23. Basis of preparation
This is the Group's first half yearly report prepared under International Financial Reporting Standards (IFRS). The financial information reflects the current versions of the standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as currently endorsed by the European Union. IFRS will continue to evolve through development and adoption of new Standards and Interpretations as well as through practical experience gained from the application of IFRS by reporting entities and their auditors. For these reasons, the information contained in this document may be amended before its presentation in the audited financial statements of the Group for the year ended 31 March 2006.

UK generally accepted accounting principles (GAAP) differs in certain respects from IFRS. The comparative figures used within this report have been restated accordingly. The Group has issued an explanation and reconciliation of the adjustments from UK GAAP to IFRS for 31 March 2004 and 31 March 2005 and a statement of its IFRS accounting policies in the document entitled "Workspace Group PLC – Adoption of International Financial Reporting Standards (IFRS)" which is available from the Group's website or Company Secretary. An explanation and reconciliation of the adjustments from UK GAAP to IFRS for the period ended 30 September 2004 is shown in note 24 below.

The accounting policies set out in the document "Workspace Group PLC – Adoption of International Financial Reporting Standards (IFRS)" have been applied in preparing the financial information contained in this report. The Group has not adopted IAS 34 – Interim Financial Reporting.

This interim report was approved by the Board on 18 November 2005.

This interim report is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year to 31 March 2005, which were prepared under UK GAAP, and on which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

24. Explanation and reconciliation of IFRS adjustments
The principal differences between UK GAAP and IFRS as they affect the reported results and their presentation of Workspace Group are set out below:

IAS 40 Investment property
IAS 40 requires that the revaluation gains or losses on investment property held at fair value be recognised on the face of the Income Statement rather than in reserves in the Statement of Group Total Recognised Gains and Losses as is the case under UK GAAP. As a result the revaluation reserve is no longer shown as a separate component of equity in the Balance Sheet but is included within retained earnings, and is non distributable.

Under UK GAAP, on disposal of properties the tax due on the realisation of gains previously recognised through the revaluation reserve was shown in the Statement of Group Total Recognised Gains and Losses. Under IFRS it is included in the Income Statement. The tax due on sale will comprise an element in the Income Statement current tax charge (based on the difference between the sales price and property's carrying value at the point of disposal) and a transfer from the deferred tax reserve of the deferred tax amount already provided in previous periods.

IAS 12 Income taxes
IAS 12 requires full provision to be made for the deferred tax on revaluation gains or losses of investment properties at the tax rate estimated at the point of realisation. A tax charge therefore arises in the Income Statement if a revaluation surplus occurs, the corresponding entry being a deferred tax liability in the balance sheet. Under IAS12 the provision for deferred tax will take no account of indexation allowances afforded under UK taxation law, the tax provided is not a calculation of potential Capital Gains Tax liability. Under UK GAAP the liability is an estimate of the Capital Gains Tax, but is not provided for, only disclosed in the notes (note 17 in the 31 March 2005 accounts).

Notes to the Half Year Interim Report
continued

24. Explanation and reconciliation of IFRS adjustments continued

IAS 17 Leases

IAS 17 requires leases, whether as the lessee or lessors to be examined to differentiate between finance and operating leases. Most property leases were recognised as operating leases under UK GAAP but under IFRS different criteria may mean some are considered as finance leases. Leases which extend for long periods and therefore under which a substantial portion of the asset life is consumed may be regarded as finance leases.

a) Head leases. Some (or some parts) of the investment properties of the Group are held under long leases which under IFRS are classified as finance leases so requiring recognition of a liability based on the minimum lease payments and a corresponding increase in the carrying value of the investment property. Many of these head leases incur only a peppercorn rent hence creating no finance lease liability. For head leases with rental payments other than peppercorn the rent paid is split between interest payable and repayment of the lease liability. Any rent payable in excess of the minimum lease payments as identified at initial recognition of the lease is considered as contingent rent and is expensed immediately.

   Under UK GAAP leasehold investment properties were reported at the valuation of the legal interest owned.

b) Tenant leases are subject to the same tests. Because of the multi tenanted nature of the Group's buildings and the short-term nature of most tenancies, no leases granted by the Group have been determined to be finance leases.

SIC-15 Operating Lease – Incentives

SIC-15 requires that any lease incentives offered to tenants, such as rent free periods or reduced initial rents are recognised over the lease term. An adjustment is therefore made to increase revenue in the Income Statement and create a financial asset. Under UK GAAP any incentive was spread to the shorter of the lease term or periods to the first rent review or lease break. The Group has granted no material operating lease incentives.

IAS 10 Events after the Balance Sheet Date

IAS 10 requires dividends only to be recognised when there is an irrevocable legal obligation to make payment. The final dividend does not become irrevocable until approved by the members at the Annual General Meeting. Under IFRS the final dividend is therefore not recognised until approved and interim dividend not recognised until paid.

IAS 16 Property, Plant and Equipment

IAS 16 requires owner occupied property to be shown as part of Property, Plant and Equipment. The Group's head office is defined as owner occupied property. As land has an indefinite life and buildings a finite life the land and building elements of the owner occupied property are shown separately, the latter being depreciated over the expected useful life and the former not being depreciated. Under UK GAAP the whole property was subject to depreciation. The valuation of the asset at the date of transition to IFRS is taken to be its deemed cost, any surplus or deficit being recognised in retained reserves.

IAS 23 Borrowing costs

IAS 23 allows the capitalisation of directly attributable borrowing costs on the creation or refurbishment of property by applying the weighted average borrowing costs to the expenditures on the asset. In the case of investment properties only the expenditure on the improvement costs may be subject to capitalisation of related borrowing costs and the underlying carrying cost of the property is excluded. Under UK GAAP interest capitalisation arose on both the original value of the investment property and on the improvement costs.

IAS 38 Intangible Assets

IAS 38 requires externally acquired computer software to be classified as an intangible asset. Under UK GAAP software was shown within fixtures and fittings amongst other tangible assets.

Notes to the Half Year Interim Report
continued

24. Explanation and reconciliation of IFRS adjustments continued

IAS 32/39 Financial Instruments: Disclosure and Presentation, Recognition and Measurement

a) IAS 32 requires the Convertible Loan Stock to be split into its equity and debt components. The debt element is carried at amortised cost, amortised over the life of the instrument, such that interest is charged at a constant effective interest rate compared to the liability outstanding at any given point in time. Under UK GAAP the instrument was considered wholly as debt.

b) IAS 39 requires derivative financial instruments to be valued at fair value through the Income Statement and their carrying values shown in the Balance Sheet unless they meet the IFRS hedging criteria. Under UK GAAP the fair value of such items was disclosed by way of a note and any original cost amortised over the life of the item.

c) IAS 39 requires the identification of any embedded derivatives in the Group's contractual arrangements. Embedded derivatives are derivative instruments that have been combined with other contractual arrangements to create a composite contract. The Group currently believes it has no material embedded derivatives.

IAS 7 Cash Flow Statements

IAS 7 defines cash and cash equivalents to include short-term, highly liquid investments, thus including short-term bank deposits. Cash equivalents were shown as investments under UK GAAP.

IFRS 2 Share-based payment

The Group operates an employee Save as You Earn Scheme, an Executive Share Option Scheme and a Long Term Incentive Plan (LTIP). IFRS 2 requires the cost of services provided where payment is made through a share based payment scheme to be recognised as an expense in the Income Statement over their vesting periods and requires that where there is no reliable estimate of the cost of these services then the fair value of the options granted should be recognised as the cost of services. The fair values have been estimated by use of the Black- Scholes option valuation model in the case of the SAYE and Executive Share Option Schemes which have non market related performance conditions and by use of Monte Carlo simulation in the case of the LTIP whose performance conditions are market related. Subsequent changes in fair value are shown as an expense in the Income Statement. Provision is also made for employer's National Insurance costs relating to share based payment schemes.

Under UK GAAP the SAYE and Executive Share Option Schemes were not directly recognised as an expense (although the interest costs arising from borrowings made to finance the purchase of shares held in the Group's ESOT to satisfy option exercises were recognised, together with share dilution where new shares were issued). The purchase cost of the matching shares was recognised for the LTIP on a straight line basis over the vesting period. Employer's National Insurance costs were recognised on share options expected to meet their vesting criteria.

IAS 7 Cash Flow statements

Under IFRS the consolidated cash flow statement describes movements in cash and cash equivalents. Under UK GAAP the cash flow analyses movements in cash only. With that exception there are no material differences between the previously published and restated cash flow statements.

Notes to the Half Year Interim Report

continued

24. Explanation and reconciliation of IFRS adjustments continued

Reconciliation of consolidated profit

for the 6 months ended 30 September 2004

	Previous GAAP £000	IAS 40 Investment Property £000	IAS 12 Contingent tax £000	IAS 17 Property head leases £000	IAS 16 Owner Occupied Property £000	IAS 23 Capitalisation of interest £000	IAS 32/39 Convertible loan stock £000	IAS 39 Fair value of derivatives £000	IFRS 2 Share based payments £000	Restated under IFRS £000
Revenue – continuing operations	26,911									26,911
Direct costs	(7,100)			26						(7,074)
Net rental income	19,811	0	0	26	0	0	0	0	0	19,837
Administrative expenses	(3,928)				1				17	(3,910)
Gain from change in fair value of investment property	0	27,033				345				27,378
Loss on disposal of investment properties	(384)									(384)
Operating profit	15,499	27,033	0	26	1	345	0	0	17	42,921
Interest receivable and payable and similar charges	(8,960)			(26)		(345)	7	19		(9,305)
Change in fair value of derivative financial instruments	0							1,073		1,073
Profit before tax	6,539	27,033	0	0	1	0	7	1,092	17	34,689
Taxation	(2,095)	437	(8,109)				(5)	(328)	(29)	(10,129)
Profit for the period	4,444	27,470	(8,109)	0	1	0	2	764	(12)	24,560

Notes to the Half Year Interim Report

continued

24. Explanation and reconciliation of IFRS adjustments continued

Reconciliation of equity

at 30 September 2004

	Previous GAAP £000	IAS 40 Investment Property £000	IAS 12 Contingent tax £000	IAS 17 Property head leases £000	IAS 10 Dividends £000	IAS 16 Owner occupied property £000	IAS 38 Computer software intangible £000	IAS 32/39 Convertible loan stock £000	IAS 39 Fair value of derivatives £000	IAS 7 Cash and cash equivalents £000	IFRS 2 Share based payments £000	Restated under IFRS £000
Non current assets												
Investment properties	652,450			754								653,204
Intangible assets	0						164					164
Property, plant and equipment – other	3,378					(510)	(164)					2,704
Property, plant and equipment – land	0					500						500
Total non current assets	655,828	0	0	754	0	(10)	0	0	0	0	0	656,572
Current assets												
Trade and other receivables	8,032								(186)		51	7,897
Financial assets – derivative financial instruments	0								124			124
Tenant deposits/other investments	3,831									(2,625)		1,206
Cash and cash equivalents	196									2,625		2,821
Total current assets	12,059	0	0	0	0	0	0	0	(62)	0	51	12,048
Current Liabilities												
Financial liabilities – borrowings	0			(3)								(3)
Trade and other payables	(28,083)				1,832			69			(139)	(26,321)
Current tax liabilities	(5,539)								(6)			(5,545)
Total current liabilities	(33,622)	0	0	(3)	1,832	0	0	69	(6)	0	(139)	(31,869)
Net current (liabilities)/assets	(21,563)	0	0	(3)	1,832	0	0	69	(68)	0	(88)	(19,821)
Non Current Liabilities												
Financial liabilities – borrowings	(306,239)			(751)				21				(306,969)
Financial liabilities – derivative financial instruments	0								(1,690)			(1,690)
Deferred tax liabilities	(5,801)	4,286	(71,405)					(4)	469		33	(72,422)
Total non current liabilities	(312,040)	4,286	(71,405)	(751)	0	0	0	17	(1,221)	0	33	(381,081)
Net Assets	322,225	4,286	(71,405)	0	1,832	(10)	0	86	(1,289)	0	(55)	255,670
Equity												
Ordinary shares	1,688											1,688
Investment in own shares	(6,096)											(6,096)
Share premium	43,586											43,586
Other reserves	0							151			181	332
Revaluation reserve	222,346	(222,346)										0
Retained earnings	60,701	226,632	(71,405)	0	1,832	(10)		(65)	(1,289)		(236)	216,160
Total equity	322,225	4,286	(71,405)	0	1,832	(10)	0	86	(1,289)	0	(55)	255,670

Notes to the Half Year Interim Report
continued

25. Interim Report

Copies of this statement will be dispatched to shareholders on 21 November 2005 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London, E1 1DU from 9.00am on that day.

Directors, Officers and Advisers

The Business	Workspace Group is a specialised property investment company devoted to the provision of small unit light industrial, studio and office workspace for rent to small and medium sized enterprises in London and the South East.
Directors	**Antony J Hales BSc,** (Chairman)* **Harry Platt MA MRTPI,** (Chief Executive) **John Bywater FRICS*** **Madeleine Carragher FRICS,** (Operations Director) **Bernard Cragg BSc ACA*** **J Patrick Marples MRICS,** (Property Director) **Christopher J Pieroni BA MSc PhD*** **R Mark Taylor BSc FCA,** (Finance Director) *Non-executive director
Secretary	**R Mark Taylor BSc FCA**
Registered Office and Headquarters	Magenta House 85 Whitechapel Road London E1 1DU Tel: 020 7247 7614 Fax: 020 7247 0157
Registered Number	2041612
Auditors	**PricewaterhouseCoopers LLP** 1 Embankment Place London WC2N 6RH
Solicitors	**Norton Rose** Kempson House Camomile Street London EC3A 7AN
Bankers	**The Royal Bank of Scotland** Corporate Banking London 280 Bishopsgate London EC2M 4RB
Financial Advisers and Joint Stockbrokers	**Panmure Gordon** 50 Stratton Street London W1J 8LL
Joint Stockbrokers	**Investec** 2 Gresham Street London EC2V 7QP
Financial Advisers	**N M Rothschild** New Court St Swithin's Lane London EC4P 4DU
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